

PUBLIC DISCLOSURE

September 22, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Oak Valley Community Bank
12-06-0897-0000**

**125 North Third Avenue
Oakdale, California 95361**

**FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Oak Valley Community Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **September 22, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

This institution's overall CRA (Community Reinvestment Act) performance is rated satisfactory based upon a review of its provision of credit to its assessment area. The bank demonstrated a high level of lending activity within its community, an adequate loan-to-deposit ratio, and adequate geographic as well as borrow distribution of loans. However, lending in low- and moderate-income census tracts was only marginally satisfactory, indicating the need for management to explore lending opportunities in these areas.

DESCRIPTION OF INSTITUTION:

Oak Valley Community Bank is an unaffiliated bank located in Oakdale, California, in Stanislaus County, approximately 100 miles east of San Francisco. The bank opened its first office in Oakdale in 1991, added a branch office in Sonora located in Tuolumne County in May of 1996, and opened its third office in Modesto in May 1997. As of June 30, 1997, total assets were \$69.1 million representing a 43% increase over June 1996 when assets were \$48.3 million. The bank's lending portfolio as of June 30, 1997, consisted of the following:

Loan Type	Loan Totals (ooo's)	Percentage of Portfolio
Commercial Loans	\$24.4	59%
Agricultural Loans	\$ 6.8	17%
Residential Real Estate	\$ 4.0	10%
Construction Loans	\$ 4.5	11%
Consumer loans	\$ 1.1	3%
Total Loans	\$40.6	100%

As the distribution illustrates, Oak Valley Community Bank is primarily a small business and small farm lender. The bank provides loans for commercial business, construction of residential and commercial structures, agricultural business, real estate secured and consumer purpose loans. The bank recently installed a computer that enables consumers to apply for residential real estate loans through CapSource Mortgage Corporation (CMC) by way of video conference with a mortgage lender. This will enable Oak Valley Bank customers to apply for 30-year mortgage loans, a product not previously offered by the bank.

Oak Valley Community Bank's previous CRA performance was rated "satisfactory." There are no legal impediments that would prevent the bank from meeting community credit needs.

DESCRIPTION OF *OAK VALLEY COMMUNITY BANK'S ASSESSMENT AREA:*

The bank's new assessment area is defined as *California State Code 06, Modesto MSA 5170, Stanislaus County code 099, Tuolumne County Code 109* which encompasses the area from the city limits of Westport and Salida to the Stanislaus county line to the west, to the Tuolumne county line to the north, to the city limits of Sonora, Cedars Ridge, Twain Harte-Tuolumne to Highway 49 to the east, and to the Tuolumne and Stanislaus County line to the south, including the cities of Cedars Ridge, Sonora, Twain Harte-Tuolumne, Ceres, Denair, Hughson, Keyes, Modesto, Oakdale, Riverbank, Salida, Turlock, Waterford, Westport as well as all contiguous unincorporated areas.

The assessment area has a population of 380,176 according to the 1990 census data. The median household income is \$29,554 and the median housing cost is \$123,161. Only 58% of the housing is owner occupied and 36% is rented. The remaining 6% are mobile homes. The median monthly rental cost is \$486. The area has a 9.7% unemployment rate which is 50% higher than the state average of 6.5%. Some of this is caused by seasonal unemployment, but the majority is due to a depressed economy. The area and housing availability has grown much faster than the availability of employment. The majority of the employment comes from manufacturing and farms, which are traditionally lower paying jobs. The major employers include: Hershey Chocolate, Hunt-Wesson, General Mills, Del Monte Foods, Blue Diamond Almonds, Campbell Soup, S & W Foods, American National Can Company, Foster Farms, Frito-Lay, Proctor & Gamble, Sabastiani Vineyards, and Gallo Vineyards.

The City of Oakdale was incorporated in 1906. The city's economic base is agricultural production and processing, industrial manufacturing and retail trade. Ninety-eight miles east of San Francisco and 325 miles north of Los Angeles, the city is located on State Routes 108 and 120 which serve as major commercial and tourist routes to and from the Central Valley, Yosemite National Park and the San Francisco Bay Area. Oakdale's industrial area encompasses 500 acres within city limits. Another 333 acres adjacent to the city are planned for future industrial development as part of the city's recently adopted 2015 General Plan. Within the city, about 225 acres are vacant for development with adjacent sewer and water in place. At Hi-Tech Industrial Park, 11 acres are available for sale or lease and smaller lots are available in the 10-acre Downing Industrial Park.

The identified credit needs in the area include affordable housing and small business loans. A member of the community stated that, for the most part, small business lending was available and fairly competitive at this time. However, there still remains a need for micro loans (\$5,000 - \$25,000 loans), the small dollar loans that many large banks are not interested in extending. There are many very small businesses in the area that need such loans which are difficult to find.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

GEOGRAPHIC DISTRIBUTION OF LOANS:

A comparison was made of the number of loans (83) extended in various census tracts within the assessment area with the economic level of those census tracts. The assessment area is made up of 76 census tracts. The chart below illustrates the level of lending in various census tracts.

	No. of Tracts		Small Business Loans		Small Farm Loans	
Low Income	3	3.9%	0	0%	0	0%
Moderate Income	15	19.7%	3	4%	1	3%
Middle Income	43	56.6%	58	70%	17	55%
Upper Income	15	19.7%	22	27%	13	42%

The bank's assessment area contains three low-income census tracts, and the bank currently has no loans in those areas. One of these low-income census tracts has zero population, and the other two are located south of the Modesto office which has been open for only a few months. Those two census tracts are made up mostly of rental income properties with very few business opportunities. Since the bank is a small business lender and the two offices that were open for the majority of the review period are located more than 20 miles away from the low-income census tracts, it is understandable that the bank has little, or no presence, in those areas.

The bank extended loans in four of the 15 moderate-income census tracts located within the bank's assessment area. While this may appear to be a low penetration, it should be noted that 14 of the moderate-income census tracts are located in south-eastern Modesto 20 miles away from the Oakdale office, in an area to be served by the bank's Modesto Office which has been open for only five months. Bank personnel and the outside contact independently stated that the large moderate-income census tracts with little lending were predominantly large farms (many comprising 500 or more acres), vineyards, and almond orchards. Also, Bank management explained that many times borrowers live in one area while the loans are for farms or businesses in areas without street addresses; therefore, only post office boxes are available. This adequately explains the current dispersion of the bank's loans.

In view of the short period the bank's Modesto Office has been open, and the fact that, in many

instances, the borrowers home address rather than the location of the farm or business where the loan was actually made, was recorded in the bank's census data, the bank's geographic distribution of loans within its assessment area is satisfactory.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

Loans reviewed for consideration under this area were small business and small farm loans. Small business and small farm loans are defined as loans with original loan amounts less than \$1 million. There were 66 small business loans with sufficient data to evaluate under this criteria. Fifty-two of those loans, or 79%, were extended to borrowers with gross annual revenues or under \$1 million, and \$2.5 million, or 38% of the dollars (\$6.6 million) were extended to those businesses. Twenty-seven small farm loans were reviewed. Twenty-four of those, or 89%, were extended to borrowers with gross annual revenues under \$1 million and \$1.8 million, or 75% of the dollars (\$2.4 million) were extended to those businesses. This distribution reflects a response to the assessment area's need, as indicated by an outside contact, for small business loans, particularly under \$100,000, to help fund start-up businesses.

Loan amounts also are evaluated under this criteria. The following chart demonstrates the level of lending for various loan amounts.

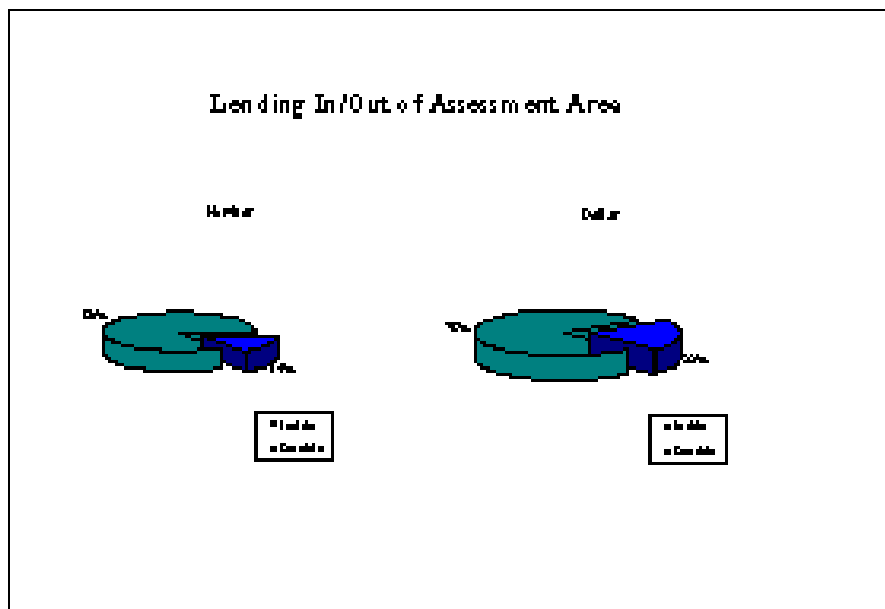
Loan Type	Under \$100,000		\$100,000-\$250,000		\$250,000-\$1 million	
Small Business	49	74%	10	15%	7	11%
Small Farm	22	81%	4	15%	1	4%

Because the substantial percentage of its small business and small farms loans are under \$100,000, addressing an assessment area need for low amount small business loans, the bank's lending to different income levels is satisfactory.

LENDING IN ASSESSMENT AREA:

The bank's major loan products are small business and small farm loans. An assessment was made of the distribution of those two products in and out of the bank's assessment area. During the review period (October 1996 through August 1997), the bank's statistical sample of small business loans was 94. Eighty-three loans, or 88%, of the small business loans extended were inside the bank's assessment area. Small business loans totaled \$9.4 million. A total of \$7.7 million, or 82%, was extended within the bank's assessment area. Thirty-nine small farm loans were reviewed and 31, or 79%, of those were extended inside the bank's assessment area. A total of \$3.7 million was extended for small farm loans and \$2.5 million or 68% was extended within the bank's assessment area.

Type	# In AA		# Outside AA		\$ In AA (000's)		\$ Outside AA	
Small Business	83	88%	11	12%	\$ 7.7	82%	\$1.7	18%
Small Farm	31	79%	8	21%	\$ 2.5	68%	\$1.2	32%
Total Loans	114	86%	19	14%	\$10.2	78%	\$2.9	22%



The bank's extension of small business and small farm loans within the assessment area is satisfactory.

LOAN-TO-DEPOSIT RATIO:

Oak Valley Community Bank's average loan-to-deposit ratio for the previous four quarters is 64%. This compares favorably with the local peer average of 63%, but is slightly below the national peer average of 70%. During the past year, the bank has opened two branch offices which have created an influx of deposits from local customers in Sonora and Modesto. In addition, management stated that they have seen an increase in deposits transferred from large local bank customers who prefer to bank with small community banks. The following charts illustrate the loan-to-deposit ratio comparisons. The slightly downward trend from September 1996 to March 1997, as shown on the table, reflects the results of increases in deposits generated by the bank's two recently opened offices and the migration of customers from larger institutions.

<u>Bank</u>	<u>Assets</u>	<u>LTD 6/97</u>	<u>LTD 3/97</u>	<u>LTD 12/96</u>	<u>LTD 9/96</u>	<u>AVE LTD</u>
OVB	\$69,138	64%	61%	64%	68%	64%
PEER	\$72,623	64%	68%	64%	55%	63%
Natl Peer		71%	70%	70%	70%	70%

Because the bank's loan-to-deposit levels are comparable with local and national peers, and it has sufficiently justified the decline of the ratio in 1997, the bank's performance is satisfactory.

RESPONSE TO COMPLAINTS:

The bank has not received any complaints about its performance in meeting local credit needs, since the previous examination on September 3, 1996. Therefore, the bank's record of taking action in response to such complaints was not evaluated in the CRA performance.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

Oak Valley Community Bank is in compliance with the substantive provisions of the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act, and the Home Mortgage Disclosure Act (HMDA). There was no evidence of disparate treatment of applicants. Interviews with bank lending staff indicated a satisfactory knowledge of the provisions of antidiscrimination laws and regulations. Management continues to provide on-going training of bank employees with regard to regulatory issues.